

Big-5: Official Guidance to Commercial Banks Regarding Brazil, Argentina, Mexico, and Yugoslavia

Western governments have generally encouraged their commercial banks to support the international effort to restructure and reschedule the foreign debts of Brazil, Argentina, Mexico, and Yugoslavia. All participants, to one degree or another, recognize that a purely defensive strategy on the part of commercial banks will only worsen the financial situation for the debtor countries involved and create more uncertainty in an already jittery international financial market. The extent and precision of guidance which governments have given their commercial banks has quite naturally depended upon the amount of loan exposure the respective lending country has to a debtor country. Moreover, governments have purposely avoided outlining any unequivocal participation policy to avoid recrimination later on if the banks' problems do increase. Instead, the governments have taken the approach to engage the banks in a dialog within the context of an international package that has broad support. For these reasons, specific government guidelines are usually not available, and in some cases is not clear in even the most general terms.

Both London and to a lesser extent Bonn have urged their respective commercial banks to participate in the rescue efforts,

EUR M 83-10120

while no information was available on Rome's position. France, a unique case given the nationalized banking sector, has played each debtor case individually. Paris has tried in many of the negotiating sessions to extract new trade contracts from the debtor country in return for new credits from French banks. In at least one instance the French Treasury has fobbed off the decision to increase commitments saying it was the individual commercial banks' decision.

West Germany

The West German cabinet has approved a policy on credits to financially troubled countries for its export credit insurance agency, Hermes. In general, Hermes will grant insurance of credits to "financially solvent" countries routinely, but to "less solvent" debtor countries only if it is working to improve its financial position. The lack of definition as to what is solvent leaves ample room for flexible policy in individual cases.

- o **Brazil and Mexico.** The West German government has characterized Brazil's financial problems as "acute" and believes that Mexico's problems will increase, [redacted] [redacted] Additional credit requests are anticipated, particularly in light of the decline in oil prices, but the government has not reached a decision as to how it will respond.
- o **Yugoslavia.** Bonn is prepared to intervene informally and prompt West German banks to support participation in a concerted action to help Belgrade. The West Germans are willing to grant new Hermes guarantees to facilitate

25X1
25X1

the large volume of trade between the two countries as part of a package that would involve the Western governments, the IMF, and the commercial banks.

France

- o **Brazil.** Paris has on several occasions linked French participation in loans to Brazil with the extent to which Brazil reciprocates by agreeing to purchase French goods. Last December the French pressed the Brazilians to sign a sale agreement to purchase the Airbus in return for new credits. The Brazilians reacted negatively to the conditional link and French commercial banks extended only \$75 million of the proposed \$140 million under the bridge loan criterion; French Treasury officials avoided any further commitment saying that the decision to complete the contribution rested with its four major banks. During the \$2.4 billion jumbo loan talks French Treasury officials unsuccessfully attempted to link its \$200 million credit for Brazil to export contracts with French firms.
- o **Argentina.** During late 1982 the French export financing agency, COFACE, was not authorizing any refinancing of Argentine foreign debt until it and other official French institutions defined the French position with respect to Argentina's debt problems.
- o **Yugoslavia.** French banks will participate in the restructuring program and provide new credits to Belgrade. The extent of French participation, however, is not clear. In the ongoing negotiations in Zurich, Paris is attempting to exclude certain French credits from the restructuring package so as to reduce its relative share in any new credits granted this year.

United Kingdom

- o **Brazil.** The Bank of England has encouraged UK banks to participate in the yet-to-be completed Project IV of the Brazilian debt rescheduling program which specifies that lending banks maintain their deposits with Brazilian banks at June 1982 levels. It is believed that the British banks have already come close to meeting the Project IV deposit levels.
- o **Mexico.** After strong urging by the Bank of England, more than 50 UK-based banks provided \$500 million of the \$5 billion Mexican rescue package, according to press reports. Under the criteria used for determining each

developed country share in the package, this amounted to a full participation by the UK banks.

- o **Yugoslavia.** The Bank of England estimates that Yugoslavia will be able to take on new financial credits this year provided that tourist trade improves greatly during May and June. The negotiations in Zurich among Yugoslavia, the IMF, western governments, and commercial banks have focused on the amount of new credit that could be made available. UK bankers expect that once the restructuring program is finalized, and a current Bank for International Settlements credit is exhausted, they will be asked by the National Bank of Yugoslavia -- with probable support from the Bank of England -- to provide new credits.

Canada

- o **Brazil and Mexico.** The Bank of Canada and Canadian commercial banks have apparently worked with the same interest on the Brazilian financial package. Early this year a group of Canadian banks, probably along with the Bank of Canada, committed over \$420 million to the Brazilian deal. It is not clear to what extent that Ottawa gave any guidance to its commercial banks with respect to Mexico. The heavy involvement of Canadian banks in Latin America, however, suggests that the common interest among all Canadian participants resulted in mutual support for the international Mexican rescue package.
- o **Yugoslavia.** Canadian financial interest in Yugoslavia is small. The Canadian government is acting with "caution" with respect to further financial commitments and plans participation at only very low levels; its commercial banks are probably following a similar strategy.

Distribution:

1 - OGI (Final version went to Marc Leland, Asst. Sec. of Treasury)
4 - IMC/CB
1 - EURA
2 - EURA Production
1 - EURA/EI
2 - EURA/EI/EI

DDI/EURA/EI/EI/ [redacted] (20Apr.83)

25X1